Washington, DC – This week, Congressman Joe Sestak (PA-07) voted for, and the House passed, the Worker, Retiree, and Employer Recovery Act of 2008 (H.R. 7327), which provides individual taxpayer relief in the form of a one-year suspension of the Required Minimum Distribution rule (RMD) regardless of total retirement account balances, and targeted pension funding relief for small businesses. Congressman Sestak’s earlier introduction of H.R. 7293, the Financial Security in Retirement Act, which suspends the RMD rule, and his strong letters to Secretary of the Treasury Paulson calling for changes to the Pension Protection Act (PPA), helped provide the impetus for House passage of this bill. —

“Seniors and small businesses are facing serious economic hardship," said Congressman Sestak. "Americans have lost more than $2 trillion dollars in retirement savings over the last 15 months, and over a five-year period, more than 760 small businesses were lost- including over 22% of the manufacturing industry- while health costs have increased 70%; education at a public university has increased 59%; and real income has not kept pace with inflation as over 50% of my District’s families have less real income today than in 2001. I heard from many of my constituents – seniors and businesses – on the need for this legislation and a bill to address their concerns. Now, with passage of this legislation, Congress has taken necessary action to protect retirement security and the sustainability of small businesses.”

PROTECTING INDIVIDUAL RETIREMENT SAVINGS

Present IRA regulations require account holders of IRA/401-k accounts to withdraw a minimum amount of money every year after they reach 70½ years old. This is known as the Required Minimum Distribution (RMD). If seniors do not withdraw a minimum amount based on an Internal Revenue Service (IRS) formula, they are subject to a 50% penalty.

While market forces should be left alone to work in normal times, we are not in normal times. Americans have lost trillions in retirement savings and the U.S. Pension Benefit Guarantee Corporation has lost at least $5 billion in stock investments. This underscores the fact that retirement security is one of the greatest casualties of the present economic crisis.

Recognizing the need for a suspension of the RMD, Congressman Sestak introduced the Financial Security in Retirement Act (HR 7293) one month ago, after seniors at his Economic Town Hall expressed concerns with the rule’s impact on their retirement savings. The bill that passed the House this week, H.R. 7293 also places a one-year moratorium on the RMD.

PROTECTING SMALL BUSINESSES PENSION PLANS

Like individuals, small businesses with pension plans for their employees have also been seriously hurt by the ongoing financial crisis. That is why Congressman Sestak wrote to Secretary Paulson on two occasions urging needed changes to the PPA, including allowing single-employer plans to "smooth" out their unexpected asset losses and adjust the transition to the new funding rules established by the PPA.

H.R. 7327 also eases funding requirements for companies and other pension plans forced to make additional contributions as a result of the economic downturn by:

• Permitting employers to "smooth" the value of pension plan assets over 24 months instead of having to apply the mathematical average that Treasury requires. This change will soften the accounting of 2008 plan losses.

• Phasing in PPA full pension funding targets from 90% to 100% over 5 years (2008 – 92%, 2009 – 94%, 2010 – 96%, 2011 – 98%, 2012 – 100%). If a plan misses its target in a phase-in year, then the target automatically increases to 100%. The bill adjusts the "phase-in" rule to allow plans which miss their phase-in funding target to retain the same target and not jump to the 100% target. For example, plans that are less than 92% funded in 2008, their shortfall would be estimated relative to 92%, not 100%. With a sizable number of plans below 92% funded next year, the adjustment of this phase-in rule could provide significant relief.

In addition, the bill includes provisions that provide:

PROTECTIONS FOR WORKERS

Temporary change of the limitation on benefit accruals. For purposes of staving off restrictions on benefit accruals as a result of being < 60% funded, plans would be able to look back to the previous plan year to determine their funded status as it would apply to workers' ability to accrue benefits.

RELIEF FOR MULTI-EMPLOYER PLANS

Plans may elect to "freeze" their plans' status for one year: For plans starting between October 1, 2008 and October 1, 2009, multi-employer plans may elect to freeze their current funding status based on the previous year’s level. This would freeze the terms of the funding improvement or rehabilitation plan adopted at any time during the previous plan year.

<u>Plans may elect to extend correction periods</u>: Plans generally must bring their funded position up to statutory standards within a correction period (10 years or 15 years). This structure aims at enabling stakeholders in troubled plans to phase in the higher contributions or deeper benefit cuts over a period of time. Plans may elect a 3-year extension of the current funding improvement or rehabilitation period, from 10 to 13 years and from 15 to 18 years. Election of this extended correction period would help offset 2008 equity losses.

“I have taken seriously the issues of the credit crisis increasingly impacting segments of our economy, including retirement savings. I wrote to Secretary Paulson regarding student loan availability, the implementation of the Emergency Economic Stabilization Act, the need to suspend Required Minimum Distributions from personal IRA’s for individuals over the age of 70 – 1/ 2, and the necessary changes to the Pension Protection Act. Passage of this bill validates the concerns I have continuously raised in the months building up to passage,” said Congressman Sestak.

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Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for 31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "Deep Blue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever elected to the U.S. House of Representatives. Since his election, he has fought for Good Governance – as demonstrated by constituent service, legislation, and outreach with accountability and transparency. He was re-elected for his second term.

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